

FISCAL NOTE
HB 35 - SB 43
FIRST EXTRAORDINARY SESSION

April 16, 1999

SUMMARY OF BILL: Changes the fees that the Secretary of State would charge limited liability companies for filing certain documents. The LLC would be charged a flat fee for each document as follows:

- 1) Articles, including designation of initial registered office and agent, \$50.
- 2) Articles of conversion \$50.
- 3) Application for certificate of authority \$300.
- 4) Annual Report \$10.

Under present law, the Secretary of State must charge an annual fee of \$50 per each LLC member with a minimum fee of \$300 and a maximum fee of \$3,000. This provision is also used to determine the filing fees for: 1) Articles including designation of initial registered office and agent. 2) Article of conversion. 3) Application for certificate of authority. 4) Annual Report. The bill would also include limited liability partnerships, limited liability corporations, and professional LLC's, in the franchise and excise tax base. The bill would also add a provision to the Hall income tax that such tax does not apply to dividends of any publicly held corporation that is organized under Tennessee law and has its principal place of business in Tennessee.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact - Exceeds \$129,000,000

**Increase State Expenditures - \$3,000,000 Recurring
\$2,000,000 One-Time**

Decrease Local Govt. Revenues - \$9,975,000

Estimate assumes the following:

- The increase in state revenues for extending the franchise and excise tax to LLC's, LLP's, and Professional LLC's is approximately \$150,000,000.
- Bill contains no earnings exemption levels for any business entities.
- Partnerships will distribute a significant amount of earnings to partners reducing the net earnings for excise tax purposes.
- Bill eliminates the use of pass-through entities as a method to evade franchise and excise taxes.

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- The decrease in state revenues resulting from decreasing the fees collected by the Secretary of State's office from LLC's is estimated to be approximately \$4,465,950.
- The Hall income tax will generate approximately \$177,000,000 in revenue, of which it is estimated that \$133,000,000 is dividend income and approximately \$26,600,000 of the \$133,000,000 are dividends from publicly held Tennessee based corporations and would be exempt from Hall income tax under this bill.
- The estimated decrease in state revenues resulting from this decrease in Hall income tax collections is approximately \$16,625,000 and is calculated as follows: $[26,600,000 \div .6250]$.
- The increase in state expenditures is estimated to exceed \$5,000,000; of which, approximately 3,000,000 is recurring costs and 2,000,000 is one-time costs for implementing a new tax structure.
- The decrease in local government revenues resulting from a decrease in the Hall income tax is approximately \$9,975,000 and is calculated as follows: $[26,600,000 \div .3750]$.
- Hall income tax is apportioned 5/8ths state and 3/8ths to local governments.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director